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SUBJECT: CZECH AIRLINES CONTINUES ITS FIGHT FOR FLIGHT

REF: A. 2009 PRAGUE 495
[1](#)B. 27 OCTOBER 2009 PRAGUE DAILY

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[1](#)1. (SBU) Summary: Following the Czech cabinet's decision not to complete the privatization process for Czech Airlines (CSA) (Ref. B), the Finance Ministry with the help of several state-owned companies is taking steps aimed at moving the heavily indebted carrier towards financial solvency. Privatization plans for both CSA and Prague's Ruzyně Airport are halted indefinitely, as the state-owned entities' finances become further intertwined. The Czech government is likely to continue its financial maneuvering to prop up CSA and could discourage future tender participation. End Summary.

Privatization Canceled

[1](#)2. (SBU) On October 26, 2009 the Czech cabinet rejected the only remaining bid on CSA's privatization tender: a CZK 1 billion (\$59 million) bid from Unimex-Travel Service, a joint venture between a Czech trade group and a charter air service 80 percent owned by the IcelandAir Group. On the same day, Ruzyně Airport CEO Miroslav Dvorak took on the additional task of President and Chairman of CSA. Additionally, the cabinet approved a debt-for-equity swap with state-owned assets management company Osinek and canceled Osinek's lien on several of CSA's properties, allowing CSA to sell these properties or use them as collateral. According to the editor of a major newspaper, the Czech government has used Osinek to prop up struggling, state-owned companies in the past as a way to circumvent EU competition regulations. The size of Osinek's ownership share in CSA is still undisclosed.

[1](#)3. (SBU) In November, Czech banks reportedly opened credit lines to CSA in response to the sale of its duty free shops, which raised eyebrows among economic analysts. One analyst was quoted in the press, calling this development "either a miracle or a case of undisclosed public support." On January 6, CSA sold its headquarters to Ruzyně Airport for CZK 607 million (USD 33.7 million). Several economic analysts positively assessed CSA's decision in the press, explaining that the company desperately needs assets and that an airline does not need to own its office space. Still, CSA found itself on the defensive, denying any inpropriety caused by Miroslav Dvorak's representing both CSA and Ruzyně Airport in this transaction, noting that the price was based on an independent appraisal.

Prague Airport Remains Public Indefinitely

14. (SBU) Prague's Ruzyně Airport's privatization tender was expected to follow shortly after CSA's. However in early December, the Czech Parliament overrode the Senate's opposition and passed legislation banning the privatization of Ruzyně Airport. Left-of-center Social Democrats (CSSD), with the support of Communists, led this effort, citing potential financial and security concerns. Although President Vaclav Klaus vetoed the law on December 16 (a Presidential power that he exercises freely), Parliament is expected to override Klaus's veto this Parliamentary session. The bill enjoyed a comfortable majority in the Parliament the first time, and it takes only 101 out of the possible 200 votes in Parliament to override a presidential veto.

A Pyrrhic Victory

15. (SBU) Comment: Financial analysts both inside and outside of CSA still predict one more year in the red (CSA posted a record loss of CZK 3.2 billion (USD 178 million) in 2009), but agree that financial conditions are improving. Now that the Czech government realizes that it will own CSA for the indefinite future, it has reinvigorated efforts to bring the company out of debt and into profitability with the help of other state-owned enterprises. Despite rumors that the CSA and Ruzyně privatizations are fated for a joint tender, a more likely short-term outcome involves continued, heavy support from the airport for CSA in the form of additional internal purchases and shifting of finances between companies. While these financial maneuvers may succeed in bringing CSA into financial solvency, the negative publicity throughout and after the tender process could discourage

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future participation in government privatization tenders. Moreover, this process could set back Czech efforts to be seen by foreign investors as having an attractive, transparent business environment. End Comment.

Thompson-Jones